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SUBJECT: MOZAMBIQUE: SCENESETTER FOR PRESIDENT GUEBUZA'S
VISITS TO WASHINGTON

REF: A. MAPUTO 692

1B. MAPUTO 603

1C. MAPUTO 184

1D. MAPUTO 150

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Summary and Introduction

11. (SBU) Newly elected Mozambican President Armando Emilio Guebuza is one of five African heads of state to visit Washington on June 13 to participate in a joint meeting with President Bush. We understand the Department is considering a separate meeting for President Guebuza with Secretary Rice. President Guebuza's other meetings on June 13 include a meeting with US Global AIDS Coordinator Ambassador Tobias, Millennium Challenge Corporation (MCC) CEO Paul Applegarth, and USAID Acting Administrator Schieck (Administrator Natsios will be out of town). Guebuza will return to the Washington area on June 21-23 as head of the Mozambican delegation to the Corporate Council on Africa (CCA) U.S.-Africa Business Summit. The signing of a Trade Investment Framework Agreement (TIFA) with USTR is planned for June 21 in Washington. Guebuza will witness the signing by the Mozambican Minister of Industry and Trade.

12. (SBU) The government of Mozambique is an Article 98 signatory and participates in ACOTA. Mozambique is the only country receiving MCC and the President's Emergency Plan for AIDS Relief assistance. Key issues that deserve particular attention during Guebuza's visits include the December 2004 presidential and parliamentary elections, the signing of a TIFA, HIV/AIDS, and African peacekeeping and Zimbabwe. This will be Guebuza's first visit to Washington as the President of Mozambique, and will provide an opportunity to further strengthen the USG's close bilateral relationship with this country. End Summary and Introduction.

2004 General Elections: Frelimo Dominates

13. (SBU) Since the signing of the 1992 Rome Peace Accord, which ended sixteen years of civil war, Mozambique has made significant progress as a young, multi-party democracy. Frelimo led the independence struggle and has been the ruling party in Mozambique since Portuguese colonial rule ended in 1975. Frelimo's military opponent during the subsequent civil war, Renamo, has been the main opposition party since the first elections in 1994. In December 2004 Mozambique held its third presidential and legislative elections. Guebuza won the presidency by a wide margin, defeating Renamo leader Afonso Dhlakama (who also ran unsuccessfully in 1994 and 1999). Frelimo won the majority of seats in the National Assembly as well. Guebuza was sworn in as President on February 2, 2005.

14. (SBU) Voter turnout in the December 2004 election was approximately 45 percent, down substantially from the 75 percent turnout in 1999. Although slightly fewer Frelimo voters cast their ballots than did so in 1999, about half of the Renamo supporters did not vote. Some analysts attributed Renamo's poor showing to Dhlakama's late campaign start; his campaign kicked-off only in the last several months of 2004, while Guebuza had been crisscrossing the country since 2002. Others believe many Renamo supporters may have felt cheated in the very close 1999 election and cynically saw little point in participating. Local and international observer groups, including the Carter Center and European Union (EU), monitored the elections. The European Union declared that the elections were carried out in a "generally successful and peaceful" manner. However the EU noted that there were irregularities and publicly stated that they should be investigated and resolved in accordance with the law. The Carter Center made similar statements, though they were more forceful in their criticism of the administration of the elections and the subsequent lack of transparency in the tabulation phases. All agreed, nonetheless, that final results broadly reflected the will of voters.

15. (SBU) Frelimo returned to the National Assembly in March even stronger) with 160 out of 250 seats - up from its previous 133 and just seven short of a two-thirds majority.

Renamo won 84 seats and an allied coalition of small parties took the remaining six. Since then several of these small parties have distanced themselves from Renamo. Renamo's unexpectedly poor showing has led to disarray within the party, and Dhlakama's leadership is being called into question by some.

Guebuza and His Cabinet

16. (SBU) Although Guebuza's more nationalistic and less flexible approach to governing led some to fear a break with the Chissano era, he has so far continued key Chissano policies (ref A). In meetings he comes across as serious, intelligent, and disciplined. During his trip to the United States in July 2004, where he attended the Democratic National Convention and met with various U.S. officials, Guebuza repeatedly said he favored maintaining a strong bilateral relationship with the U.S. and that he wanted to work closely with international financial institutions (IFIs). Both the IMF and World Bank are very active in Mozambique, and the GRM's economic policies -- particularly its poverty reduction strategy -- adhere to guidelines set out by both institutions.

17. (SBU) A wealthy businessman himself, largely the result of his party and government positions, Guebuza has a good understanding of business and economic concerns, and maintains strong ties to the private sector. On occasion he has called for the "Mozambicanization" of the economy (Ref D), which has sparked some concern among foreign investors. Just what is meant by this, apart from the clear intent to provide more jobs for Mozambicans, is not yet clear. The lead commercial association in Mozambique is optimistic that Guebuza will be more pro-business than his predecessor. Guebuza has continued where he left off on the campaign trail, pledging that his administration is serious in its fight against corruption and bureaucratic inefficiency.

18. (SBU) President Guebuza moved swiftly to set up his cabinet, naming most of its members one day into his presidency (ref C). We understand that the highest Frelimo party body, the 15-member Political Commission, vetted his choices and that former President Chissano, who is on the Commission and still wields significant power within the party, may have insisted on some names. There are some important holdovers from the Chissano administration -- Prime Minister Luisa Diogo, Defense Minister Tobais Dai, and veteran Minister in the Presidency for Diplomatic Affairs Francisco Madeira. Guebuza appointed six former provincial governors to ministerial posts, a move that analysts stress demonstrates that he is serious about economic development in outlying areas of the country -- a central theme to his administration's five-year plan. The rest of Guebuza's cabinet appears to be composed of Guebuza loyalists relatively inexperienced for their portfolios, though technically competent deputies remain in all the ministries (ref A).

Economic Affairs

19. (U) Mozambique's past macroeconomic reforms and success in attracting large investment projects have given the country an average annual GDP growth rate of eight percent from 1994-2004, the highest in Africa over this time period. This growth is from a very low base; per capita GNP for 2004 registered around USD 290. Foreign direct investment, exports, and revenue collection all have increased significantly. Since the late 1990's most of the state companies have been privatized, with only about one dozen left in government hands. Mozambique's mega-projects, such as the MOZAL aluminum smelter (an Australian investment) and the newly inaugurated SASOL gas pipeline (South Africa), account for 2-3 percentage points of the country's GDP growth and dominate its exports. Several other mega-projects - a coal mine to be operated by a Brazilian firm in Tete province, and two alluvial heavy metal mines - are in the beginning stages of development. Guebuza welcomes such investment, but has expressed concern that Mozambique needs to rapidly develop small and medium-size businesses, both for jobs and to foster the growth of a native managerial class.

110. (U) Over the past decade the government has followed IMF and World Bank guidelines on economic issues. The inflation rate for 2004 was around 11 percent, in line with the levels of recent years. The USG has forgiven all of Mozambique's debt - USD 151 million - with the final USD 50 million forgiven in 2002 as part of Mozambique's HIPC relief initiative. The government depends on foreign donors to finance about 45 percent of its budget, a dependency that is likely to continue for some time even as the economy continues to grow.

Investment Climate

111. (SBU) The Mozambican business climate is improving, yet Mozambique remains a challenging environment in which to do

business. Generally sound macroeconomic policies and a high-level commitment to attracting business mask a bureaucracy that remains at times unresponsive to the needs of the private sector, especially small-to-medium-sized enterprises. Obtaining permits takes time, corruption is problematic, and the legal system is antiquated and cumbersome. The labor law is extremely pro-worker and an impediment to foreign investment, although legal revision of some policies is underway and may be completed by early 2006. Land title is granted in the form of leases; private ownership of land is not allowed and land cannot be used as collateral. Donors are working extensively with the GRM to modernize and improve the commercial code, labor law, business registration process, tax system, and land ownership policy. Reform is moving in the right direction, yet it will take several years before significant impediments to investment are removed.

¶12. (SBU) Since Guebuza's term began, the Ministry of Labor and the Ministry of Industry and Commerce have taken some steps to make it easier for business. Together they have opened one-stop-shops in each of the ten provinces to accelerate the process of registering a company. It is still too early to judge the effectiveness of this initiative, but it is a welcome sign. A U.S.-Mozambique Bilateral Investment Treaty (BIT) went into effect in March 2005. At present the Ministry of Industry and Commerce is reviewing the text of a U.S.-Mozambique TIFA, which hopefully will be ready for signature on June 21.

¶13. (U) Mozambique offers substantial investment and commercial opportunities in energy generation (hydropower, coal, and gas), transportation (road construction, rail and port services, airport construction, and air transport), resource extraction (natural gas, minerals, timber, and fishing), aquaculture, agriculture/horticulture (cereals, cashews, cotton, sugar, premium vegetables, flowers, and citrus; light industry), and tourism. The GRM has been very responsive to large-scale investors, and has created several "special economic zones" and "export processing zones," some located in poor and under-developed areas.

¶14. (SBU) U.S. trade with and investment in Mozambique remains small. In 2004, the US imported USD 10 million in Mozambican goods (mainly seafood, garments, cashews) and exported USD 49 million in products (wheat, corn, tractors, milk products) to Mozambique. Investments from the U.S. in 2004 totaled slightly less than USD 1 million (compared to USD 60 million from South Africa). Currently only one apparel company in Mozambique is exporting to the US under AGOA. Other miscellaneous products, such as cashews, shrimp, and tobacco, are also exported to the U.S. under AGOA. The newest export success story is Indian Ocean Aquaculture's (multinational firm) sale of boxed, frozen aquaculture shrimp to U.S. distributors Tasty Choice and WalMart (ref B). The BIT may provide further incentive for increasing US investment, but Mozambique must address a number of the constraints mentioned above for business to improve rapidly. A TIFA would provide a venue for addressing these constraints.

Key Issues

¶15. (U) HIV/AIDS: Mozambique is at a critical stage in its efforts to stem the HIV/AIDS epidemic. HIV/AIDS prevalence in Mozambique has risen from 3.3 percent of adults in 1992 to almost 15 percent in 2004. The central region is worst affected, with an estimated prevalence of 35 percent in urban areas of Sofala province. 1,400,000 adults (15-49) are currently living with HIV/AIDS, but only 5,600 are on ARVs. The estimated number of AIDS orphans in Mozambique is 273,000. Challenges include current rates of high-risk behavior, the low age of sexual debut, multiple partners, and low use of condoms in high-risk encounters. The Mission has made considerable efforts to ensure that the President's Emergency Plan For AIDS Relief is seen as a collaborative approach to addressing the epidemic by working closely with the government, other donors, and domestic and international NGOs.

¶16. (U) Mozambique is one of 15 priority countries under the President's Emergency Plan for AIDS Relief. The Emergency Plan will provide approximately USD 48 million for our 2005 Country Operational Plan (COP), up from USD 25.5 million for the 2004 COP. All agencies at post, including State, USAID, CDC, the Peace Corps, and Defense, are part of our effort, and we make sure to mention in every public speaking opportunity the urgency of fighting HIV/AIDS. In his Washington visit last July, Guebuza acknowledged the extensive U.S. commitment to helping Mozambique combat the disease and its effects. Since taking office, Guebuza has placed capable individuals at the helm of key government institutions like the Ministry of Health and the National AIDS Council, but strong statements on his part have been noticeably absent. With HIV/AIDS affecting an increasing number of Mozambicans, Guebuza will have to take a more

active role in HIV/AIDS leadership to make meaningful gains (ref A).

¶17. (SBU) MCA: Millennium Challenge Corporation representatives have visited Mozambique on multiple occasions since Mozambique was selected as part of the first group of 16 eligible countries in May 2004, with MCC CEO Applegarth visiting in October 2004. Mozambique submitted a concept paper to the MCC in late September that is focused on the private sector and the northern region. There has been some press coverage, particularly around the MCC visits. The MCC provided feedback on Mozambique's concept paper in late November, and a dialogue has been developing since then. An MCC technical team conducted a working visit in March and is returning in early June.

¶18. (SBU) African Peacekeeping: Regional Issues: During his Presidency of the African Union (AU), President Chissano was actively engaged on broader African issues and sought to use his AU Presidency both to build stronger African institutions and to find African-led solutions to Africa's problems. Mozambique's participation in the AU's peacekeeping operations in Burundi is one such example. Post is working to assist the Mozambican military in further developing its peacekeeping capacity, especially through the African Contingency Operations and Training Assistance (ACOTA) program. ACOTA began training the first of three Mozambican Defense Force (FADM) battalions on April 11, 2005 and is expected to have all three fully trained by April 2006. We look forward to supporting the GRM to increase its capacity to contribute to peacekeeping operations.

¶19. (SBU) Zimbabwe: Despite the support for the AU peacekeeping efforts, the GRM has been hesitant to point the finger at other African governments over human rights violations and has historically abstained from voting on any such resolutions, including the recent EU resolution on human rights violations in Darfur. Late last year, Mozambique also voted in favor of non-action motions on the UN human rights resolutions for Sudan and Zimbabwe. GRM officials state that Mozambique, instead of criticizing actions, prefers to focus on what can be done to address such issues within the regional institutions (e.g., the AU). Mozambique, under Chissano, was also particularly hesitant to engage on Zimbabwe, due to the close historical and personal ties between the countries, leaders. Guebuza has visited Zimbabwe since taking office and has refrained from public criticism of Mugabe.

¶20. (SBU) Nyati Beach Lodge: The ongoing Nyati Beach Lodge legal conflict involves an OPIC-supported American businessman in a dispute over property rights. The investment group to which the American belongs was issued rights to Nyati in 2003. On the other side, a Zimbabwean firm has an apparently shaky claim dating from the mid-1990s. In late 2004 a provincial judge found in favor of the Zimbabwean, which led to the American's eviction from the lodge on January 6, 2005. Subsequently the Mozambican Supreme Court ordered the suspension of the eviction order, but the provincial judge has refused to enforce the order in a way that would force police to remove the Zimbabwean. The American is hoping the Guebuza government will evict the Zimbabweans based on the Supreme Court's order, and is also hoping the Supreme Court will reverse the lower court's decision that favors their claim. Over the past several months the Embassy has contacted many high-level officials about the Nyati situation. Both sides are awaiting the Supreme Court's decision.

¶21. (U) Corporate Council on Africa (CCA) U.S.-Africa Business Summit: President Guebuza will return to the US on June 21, along with three or four Mozambican ministers and a Mozambican private sector delegation of 20 individuals (representing services, construction, agribusiness, seafood, manufacturing, energy and power, telecom, and transportation), to take part in CCA's fifth biennial U.S.-Africa Business Summit in Baltimore. Guebuza is one of twelve African heads of state who will attend the Summit. Guebuza's decision to return to the U.S. for such an event is a testament to the importance he places on the growing trade and investment relationship between the U.S. and Mozambique. Guebuza plans to attend a TIFA signing ceremony in Washington with USTR Portman and the Mozambican Minister of Industry and Commerce Antonio Fernando on June 21. Guebuza will also travel to Baltimore that day for the opening of the Summit, where he will address the convention on African agriculture. He will depart Baltimore on June 23 to return to Mozambique in time for Mozambican Independence Day on June 25.

La Lime